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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 005266

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DEPARTMENT OF ENERGY FOR IE  
EB/ESC/IEC FOR GALLOGLY, DOWDY

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TAGS: [ENRG](#) [EPET](#) [ECON](#) [BEXP](#) [KU](#) [OIL](#) [SECTOR](#)  
SUBJECT: KUWAIT PROJECT STALLED IN PARLIAMENT...AGAIN, KP  
OFFICIAL REMAINS HOPEFUL

Classified By: Ambassador Richard LeBaron for reason 1.4 (b)

1. (C) Summary: After reviewing a critical State Audit Bureau report on the enabling law for the participation of foreign companies in the development of Kuwait's northern oilfields (Kuwait Project), the National Assembly's Economic and Financial Affairs Committee withdrew its previously submitted report favoring the project. The Assembly vote on the law, originally scheduled for January 16 and pushed back to the 23rd, is now on hold. Kuwait Project Executive Assistant Managing Director Hashem Al-Rifaei remains hopeful and told Econ Officer on December 26 that he still expects the law to come up for a vote soon. End Summary.
2. (SBU) In mid-December, Kuwait's State Audit Bureau issued a report on the proposed law to allow foreign oil companies to develop and operate Kuwait's northern oilfields (Kuwait Project). The Bureau criticized a favorable report issued earlier by the Economic and Financial Affairs Committee of the previous Parliament. The Bureau's report found fault with the National Assembly Committee's report for "not considering the main contracting objectives" and for exceeding the limits of a contracting agreement. The Audit Bureau also suggested that any contract to be signed with the IOCs involved in the Kuwait Project be subjected to the Bureau's supervision. On December 20, 20 MPs issued a statement insisting that each part of the Kuwait Project contract between the GOK and IOCs be ratified by Parliament. Finally, on December 24, the Economic and Financial Affairs Committee decided to withdraw its report for further consideration. A vote on the law, originally scheduled for January 16 and later pushed back to January 23, has been put on hold indefinitely.
3. (C) Kuwait Project EAMD Hashem Al-Rifaei told Econ Officer on December 26 that, despite the Committee's December 24 decision to withdraw its report on the project, he still expected the enabling law for the project to come up for discussion and a vote in front of the full Assembly sometime in January. He said that he had just spoken with someone from the Council of Minister's office and that the Council fully supported the project and wanted the vote to take place. He described the recent moves as "just political tactics," but he was clearly frustrated by the repeated delays.
4. (C) By all accounts, the NA Committee decided to withdraw its report based on the recent publication of an Audit Bureau report finding a number of problems with the constitutionality of the enabling law and the proposed contract with the IOCs. Al-Rifaei said that the Audit Bureau report was based on the Bureau's review of a May 2005 draft contract. He said that this contract was no longer valid and that the Audit Bureau "could no longer be considered an impartial government body."
5. (C) He said that he expected the measure would still be discussed by the National Assembly on January 23, and that it could possibly come up for a vote the same day. (Note: Our Political Section colleagues are not aware of a session on January 23 and think it may actually come up on the 30th, if at all.) Al-Rifaei said that, despite all of the political maneuvering, he still believed that there are 33 votes in favor of the project, which gives it enough to pass. The one obstacle they do face, he said, is that "time is against us" and that other pressing matters could move the Kuwait Project vote to the back-burner. "The political situation..." he sighed, "...it's murky."
6. (C) He explained that the new Committee was not as supportive of the project as the old Committee, and needed a lot of attention and "tutoring" in order to help them understand the project. He said that he had spent four hours the previous evening at the home of an unidentified National Assembly member and member of the Economic and Financial Affairs Committee, explaining "the ABCs of oil," as he put it. He said that this was the case not only with a few of the new members of the Committee but with many members of the NA, that they just did not understand anything about oil or

the oil business.

17. (C) Al-Rifaei said that he was hoping to see an immediate public response from the Ministry of Energy to the Audit Bureau's report, but that it had to wait because the Minister has been in China and Russia over the past few days. He said that he was at that moment preparing a fax to send to the Minister's plane so that Minister of Energy Shaykh Ahmed Fahd Al-Ahmed Al-Sabah could have a press conference immediately upon his return to Kuwait, in order to refute the Audit Bureau report and to support the project and urge for a vote. He said that he was a bit disappointed that Kuwait Petroleum Corporation CEO Hani Hussain has not come out strongly for the project in public and that he has had numerous opportunities to do so.

18. (C) Al-Rifaei said that, if the enabling law did get voted on and passed, he expected it to be about 3 months later that KOC would be able to present a bid package to the IOCs. He said that this would actually consist of about two months of internal GOK processes, and one month for his division to update the project data and prepare the bid package. He then expected the IOCs to be given 2-3 months to respond, and that his group would take about 2-3 months to review the responses. He said that the IOCs would be expected to submit their response in two separate packages: one envelope would contain their technical qualifications; and the second would contain their bid amount. The technical qualifications would be analyzed by his group and whoever was qualified would then have their bid envelope opened up, preferably on Kuwaiti national television. He said that his group had run this idea past Transparency International and that the organization told them that they could not think of a better way to do it to avoid any charges of corruption in the bid process.

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LeBaron